

EXECUTIVE SUMMARY

CITYWIDE OVERVIEW BY FUND FAMILIES

General Fund

2007-2008 Budget: \$126.9 million, up \$13.2 million

Revenue Drivers

- \$6.75 business license fee increase
- 1% property tax increase
- Sales tax growth rate estimated at 5% per year.
 - No sales tax assumed from Microsoft development due to high technology sales tax exemption.
 - Sales tax streamlining projected to have no impact (potential loss \approx \$1.0 million).
- Property taxes from new construction of \$400,000 in 2007 and \$412,000 in 2008, including new Microsoft development.
- Telephone utility tax still at low levels as a result of decline in previous years; only modest growth projected.
- Assumes 85% to 90% cost recovery level for development activity. Fast tracking of Microsoft development, as proposed, will be 100% paid by the company, resulting in no net cost to the General Fund.
- Modest changes in other revenues

Cost Drivers

- Cost associated with current staff and services
 - Adjustment for salaries due to inflation and merit increases (\$6.5 million)
 - 4.5% merit/market included in departments; 1.6% inflation contingency included in Non-Departmental.
 - 13% increase in medical costs (\$1.8 million)
 - 132% and 17% increases in PERS/LEOFF respectively (\$1.9 million)
 - Higher worker compensation costs (\$500,000)
 - Partial inflationary increases to non-salary line items (\$634,000); this is the first time in seven years in which departments have received a small adjustment for inflation. Inflation in August was 5%; adjustment in budget is 2.6% and 2.5% for 2007 and 2008, respectively.
 - Compliance with City fiscal policies
 - Maintain operating reserves at 8.5% of General Fund revenues excluding development fees. This will increase the reserve from \$4.2 million to \$4.9 million or \$700,000.
 - Building permit reserves restored to 25% of development review costs due to pickup in activity. The reserve has increased from \$400,000 to \$1.1 million or \$700,000.
 - General Fund contribution for new City Hall lease payments increased from \$973,000 to \$1,946,000 to reflect two years of occupancy vs. one year in the previous budget.

Cost Drivers (cont.)

- New Programs:
 - Keeps fire stations open (\$1.5 million; 8.0 FTEs)
 - Supports Police operations (\$1.5 million; 5.0 FTEs)
 - Supports basic services to mitigate risk, comply with mandates and ensure business continuity (\$2.4 million; 6.7 FTEs):
 - Forecasting and financial analysis
 - Records Management system (costs are split between City Clerk and Information Technology Fund)
 - Utility Billing to address growth in the City and UPDs; will be 100% paid by the Utilities
 - Payroll, labor negotiations, recruitment, and training staff to deal with citywide compensation, benefit cost containment, and recruiting issues
 - Web services
 - Teen center risk management
 - Additional funding to recruit lifeguards at Idylwood
 - Unfunded parks maintenance for completed capital projects
 - Funding to complete high priority implementation actions for the Comprehensive Plan
 - \$1.2 million for the replacement of critical city assets

Supplemental Packages

- #1: \$30 Business Tax Increase in 2007 to further support public safety
 - Next phase in correcting staffing deficiencies in Police: 9.0 FTEs; \$1.9M/biennium
 - Additional staffing for Overlake FS #12 to address growth service demands and ensure adequate Redmond responses (9.0 FTEs; \$2.2M/biennium)
- #2: \$0.26 Levy Lid Lift Proposal to voters in 2007
 - Public Safety
 - Aid car personnel for Northeast Education Hill Fire Station #17 (9.0 FTEs; \$2.2M/biennium). Station scheduled for construction in 2008 and there are no resources to staff it.
 - Completes process of bringing Police staffing to minimum levels (10 FTEs; \$2.1M/biennium)
 - Parks Maintenance
 - Pay for maintenance of new parks and right of way coming on line such as Dudley Carter, Redmond Fall City Highway and other projects which may be associated with a citywide Parks Bond (\$960,000/biennium)

Supplemental Package (cont.)

- #3: Microsoft development staffing
 - Additional resources to expedite development review of Microsoft projects (\$4.6 million and 12.0 FTEs) over next three years
 - Planning Department building inspection and plans examination: \$2.6 million and 6.0 FTEs
 - Public Works Department construction inspection: \$688,000 and 2.0 FTEs
 - Fire Department inspection review: \$1.3 million and 4.0 FTEs
 - As proposed, costs of additional resources to be fully borne by Microsoft.
- #4: Parks Bond Issue
 - Use impact fees to underwrite a Parks Bond issue of between \$12 million and \$18 million for the acquisition of park land and open space and development and renovation of new/existing parks
- #5: Impact Fees
 - Fee increase adopted in August 2006 provides \$12.9 million more revenue for the 2007-2012 period.
 - Functional area managers will be prepared to discuss how the \$12.9 million will be used in Transportation, Parks, and Fire as part of budget deliberations.

Special Revenue Funds

2007-08 Budget: \$69.5 million, up \$12 million

Recreation Activity Fund

- Increased demand for classes and programs.
- Addition of program coordinator at ORSCC to support class operations (1 FTE).

Fire Equipment Replacement Reserve

- Up \$1.3 million due to increase in scheduled replacements and an additional \$500,000 being transferred from the Fire CIP to ensure adequate replacement for fire apparatus.
- Without new money, fund will begin to incur deficits in 2011.

Operating Reserves

- Maintains 8.5% operating reserve to comply with fiscal policy. Reserve will increase from \$4.2 million to \$4.9 million.
- Restores building permit reserve as a result of pickup in development activity. Reserve will increase from \$400,000 to \$1.1 million.

Advanced Life Support Fund

- Up \$778,000, reflecting costs of 3 full units, which have been in operation since June 2005. This service is paid 100% by the King County EMS Levy.

Special Revenue Funds (cont.)

Real Estate Excise Tax

- Up \$5.4 million due to increased real estate values and transactions and budgeting to more accurately reflect actual collections.

Capital Equipment Replacement

- Increased due to one-time contribution of \$1.2 million from General Fund to address funding deficiency for general capital assets.

Debt Service Funds

- 2007-08 budget decreased \$2.7 million due to retirement of 1992 general obligation refunding issue for the Public Safety Building and Senior Center in 2005. This is the primary reason why the property tax levy rate decreased from \$1.58 in 2005 to \$1.23 in 2006.

Enterprise Funds

2007-08 Budget: \$172.3 million, up \$62.4 million

Water/Wastewater

- Rate increases
 - Water: 12% increase in 2007 and 6% increase in 2008
 - Sewer: 19% increase in 2007 and 6% increase in 2008
 - Metro: 9.2% increase in 2007 (this is a passthrough and represents a \$2.35 increase in the monthly bill.)
 - Impact on average customer's monthly bill: \$6.45 in 2007 and an additional \$1.98 in 2008 for a total increase of \$8.43. The average monthly bill will increase from \$54.44 in 2006 to \$62.87 in 2008.
- New Programs
 - Converts supplemental staff position into an FTE to provide ongoing support to the Wellhead protection program. Funding provided by reallocating professional services money within existing budget.
- Debt Proposed
 - \$8.6 million in debt proposed to address well, tank, and pump station, and sewer trunk improvements, and upsize the sewer system to move downtown forward.

UPD

- Rate increases
 - Water: 11% increase in 2007
 - Sewer: no increase
 - Metro: 9.2% increase in 2007
 - Impact on average customer's monthly bill: \$6.56 in 2007 of which \$4.21 is the City's portion and \$2.35 is the Metro pass-through. Monthly bill increases from \$70.85 in 2006 to \$77.41 in 2008.

Stormwater Management

- Rate increase
 - 44% increase from \$11.50 to \$16.56 in 2007; No increase for 2008.
 - Preliminary forecast indicates an 11% increase for 2009-10 from \$16.56 to \$18.36.
- Debt proposed
 - \$40 million debt proposed to address primarily stormwater issues in the downtown subarea.

Internal Service Funds

2007-08 Budget: \$39.7 million, up \$5.4 million

- *Fleet Maintenance Fund* is up \$1.5 million, reflecting higher City contributions for maintenance and replacement of rolling stock.
- *Insurance Claims Fund* increased \$350K due to:
 - Market based adjustments and merit increases.
 - Medical cost increases of 13% per year.
 - 132% increase in PERS state retirement costs.
- *Medical Self-insurance Fund* is up \$1.9 million as a result of 13% annual increases in medical rates based on actuarial projections.
- *Worker's Compensation Fund* rose \$277K due to higher trends in worker compensation claim costs.
- *Information Technology Fund* is up \$1.5 million. Drivers include:
 - Market based and merit pay increases.
 - Medical cost increases of 13% per year.
 - 132% increase in PERS state retirement costs.
 - Higher worker's compensation costs.
 - Inflationary increases to non-salary line items.
 - Properly budgeting enterprise software licenses.
 - New programs added to address citywide data security, disaster recovery, records management, and critical support (1.0 FTE; \$653,130).

Capital Improvement Funds

2007-2008 Budget: \$114.6 million, up \$1.7 million; but after eliminating effect of capitalizing the City Hall lease in 2005-06 the more accurate picture is an increase of \$37.8 million.

Please note that this discussion is about the first two years of the City's 6-year program. See CIP section for more details.

Revenue Drivers

- Business tax reinstated.
- Eliminated 5% General Fund transfer.
- Real estate excise tax up significantly.
- Impact fees reflect old fees.

Changes By Functional Area

- Council CIP down \$2.4 million due to the transfer of 116th and Bear Creek funding to the Transportation CIP.
- Parks CIP down \$3.5 million due to completion of land acquisition for KC shop site and Perrigo Park.
- Transportation CIP up \$46.4 million due to Bear Creek Parkway, which will be designed and constructed starting in 2007 and financed using debt, construction of NE 36th Street Overcrossing, and reinstatement of the business tax surcharge.
- Fire CIP includes construction of Fire Station #17 in 2008 and an addition of \$500,000 for fire equipment replacement. The level of funding for this functional area has remained relatively consistent between the two bienniums.
- Police CIP down \$1.7 million, primarily due to completion of large projects such as the Police evidence area and the criminal justice integration project.
- General Government CIP decreased \$36.4 million due to:
 - Eliminating capitalization of City Hall lease in 2005 (\$36.1 million)
 - City Hall lease obligations and maintenance costs increased from \$1.4 million in 2005-06 to \$7.9 million in 2007-08 or \$6.5 million due to two full years of debt and maintenance/operations (M&O) payments versus one year in 2005-06, and higher than anticipated maintenance costs. M&O costs are over 60% higher than the original budget due primarily to equipment warranty expirations and rising energy costs.
 - Please note the debt and M&O costs are being paid with a combination of existing cash and monies from the General Fund and Utilities in accordance with conceptual financing plan. The large increase in M&O will result in the existing cash being depleted in 2012, four years faster than planned.
 - Affordable housing funded at \$200,000; no funding had previously been approved after 2006.